B5350-2

MANUFACTURERS HANOVER

# Financial Digest

Volume XXVII, Number 22 Monday, October 22, 1990

Analysis of Business Trends Plus Selected Financial Indicators

## A Checkered Regional Economic Picture

Although the economy stands at the brink of recession, buffeted by lethargic retail sales, plunging residential construction and weakening jobs growth, not all regional economies are unraveling at the same speed. The darkening national skies mask wide local disparities in both performance and outlook, which run the entire gamut from brisk expansion to outright contraction. This regionally-checkered pattern has, in fact, become a hallmark of this business expansion, which has been punctured from time to time by a string of mini-recessions in such diverse locales as the Farm Belt, Rust Belt, Oil Patch and Wall Street. Each time, the nation as a whole dodged recession, and some optimists are arguing that it will do so again. They could be right, but whether those areas which are still expanding will be able to exert sufficient pull to keep the entire economy afloat is more problematic than usual, especially when you consider that the regions in the most dire straits carry some of the greatest economic weight.

Nowhere is the deterioration of business conditions more pronounced than in the Northeast. This area finds itself in the grips of a slowdown, experiencing job cutbacks, tumbling real estate values, rising office vacancy rates, widening state and local budget deficits and soaring tax bills. Although the precise dating of the ungluing of the Northeast economy is arguable, there is considerable agreement that the October 1987 stock market plunge, defense spending reductions and subsequent cutbacks throughout its high-technology industries have been the principal contributory factors. Employment has been a visible casualty, especially in New England where the number of jobs has contracted over the past year, as well as in the Middle Atlantic states, where jobs growth has slowed to a crawl. Neither region comes even close to matching the national average, a trend sharply in evidence since the October 1987 "crash".

### Northeast Woes

The multiplying signs of malaise in the Northeast have become ominously self-reinforcing, with each negative turn seemingly begetting another. As layoffs have mounted and job security faded, retail sales have been hard hit throughout the region. Whereas such sales rose by 3½ percent nationwide during the year ending in July, they stood still in New England and advanced at about half the national rate in the Middle Atlantic states. The effects on the property markets have been even more severe. With office payroll employment tapering off, the demand for office space has dwindled, sending vacancy rates soaring—to a record high in Manhattan and a five-year high in Boston. Nor has residential property been spared. Quite the contrary. With buyers on the verge of becoming an endangered species, sales of existing homes have shriveled, prices have tumbled and housing starts have plunged nearly 40 percent in the tri-state New York, New Jersey, and Connecticut area over the past year. Property auctions are now commonplace and, if they're unsuccessful, foreclosure is often close behind.

These business woes have also been at least partially responsible for widening state and local budget deficits, and a flurry of tax hikes to correct them. The residents of New York and New Jersey are facing local tax increases to the tune of $4½ billion in the coming year, and the Federal government threatens to pile on some more. Surging oil costs are also taking their toll on discretionary consumer spending power and confidence, threatening to weaken further an already soft retailing environment. And, any lingering expectations of a strong Christmas selling season are fading almost as quickly as the hours of daylight.

The storm clouds gathered over the Northeast dissipate somewhat as one's gaze extends west, into the industrial heartland of the Great Lakes region and toward the long-depressed Oil Patch. Bolstered by bulging export orders and enhanced domestic competitiveness due to the draconian restructurings of years past and the sharp erosion of the dollar in the foreign exchange markets which has lifted import prices, business activity throughout the Great Lakes area has yet to be pinched severely. This has kept employment levels, retail sales and housing starts in the plus column. Even the nationwide commercial real estate rout has dealt this region only a glancing blow. Although rising,

Manufacturers Hanover Economics Department 17/270

Copyright 1990 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

office vacancy rates in such large regional centers as Chicago, Cleveland and Cincinnati still stand a good distance below the national average.

So, too, some brightening of the Southwest business outlook has accompanied the recent rise in oil prices. If the price of oil remains above $35 per barrel, this development will only hasten the rebound already underway in Texas, the nation's third largest state, and around which a good deal of regional economic activity pivots. Such positive signs as a drop in the state's unemployment rate, a bottoming of the slump in housing starts and a gradual decline in office vacancy rates were emerging long before the latest oil price surge, but stepped-up capital spending in the oil-related industries can only accelerate and deepen the regional recovery.

### Bi-Coastal Recession?

It is the West Coast, however, which may write the epitaph for today's business expansion. Only this area, especially the California powerhouse which now accounts for nearly 15 percent of the nation's gross output, has the size and diversity to mute the recessionary impulses radi-

## Short Term Paper Outstanding

(Millions of Dollars)

| Time Deposits $100,000 or more Weekly Reporting Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/3/90) | 207,440 | + 379 | - 10,893 |
| New York City (10/10/90) | 35,627 | - 72 | - 6,304 |
| **Commercial Paper** (10/10/90) | 562,520 | + 965 | + 50,825 |

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/3/90) | 318,880 | + 2,010 | + 1,577 |
| New York City (10/10/90) | 56,694 | - 374 | - 4,011 |

**Total Loans and Leases Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/3/90) | 1,019,108 | + 5,026 | + 37,239 |
| New York City (10/10/90) | 178,871 | - 698 | - 4,640 |

## Financial Markets

| | Friday 10/19/90 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 7.47% | + .12 | - .30 |
| 180-Day Bills† | 7.55 | + .05 | - .41 |
| Longest Bills† | 7.53 | - .03 | - .33 |
| **Recent Issues:** | | | |
| 8⅛s 9/15/92 | 7.85 | - .06 | |
| 8½s 9/15/94 | 8.15 | - .16 | |
| 8¼s 8/15/00 | 8.63 | - .19 | |
| 8¼s 8/15/20 | 8.76 | - .20 | |
| **Municipals:** | | | |
| Bond Buyer—20 Bond Index* (10/18/90) | 7.48% | - .08 | + .29 |
| Blue List Total ($ Million) | $1,081 | - $ 21 | - $ 270 |
| 30-Day Visible Supply ($ Million) | $1,866 | + $324 | - $ 683 |
| Total | $2,947 | + $303 | - $953 |
| **Corporates:** | | | |
| Moody's Aa Composite (10/18/90) | 9.81% | - .06 | + .65 |
| 30-Day Visible Supply ($ Million) | $ 467 | –0– | - $1,593 |
| **Stocks:** | | | |
| Dow-Jones Averages: | | | |
| Industrials | 2,520.79 | + 122.77 | - 168.35 |
| Transportation | 868.16 | + 38.46 | - 362.64 |
| Utilities | 209.88 | + 4.02 | - 5.60 |
| 65 Stocks | 887.42 | + 37.41 | - 133.46 |
| **N.Y.S.E. Composite Index** | 170.40 | + 5.98 | - 21.72 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 180,726 | + 24,532 | - 53,711 |

*34% Taxable equivalent 11.33%.

† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 10/19/90 | Week Ago |
|---|---|---|
| Overnight | 7.94% | 7.94% |
| 1 month | 8.06 | 8.06 |
| 3 month | 8.13 | 8.13 |
| 6 month | 8.13 | 8.13 |
| 1 year | 8.13 | 8.13 |

**FOREIGN EXCHANGE SPOT RATES**

| New York Opening (10/19/90) | Currency Per U.S. $ | Week Ago |
|---|---|---|
| Belgium | 31.05 | 31.34 |
| Canada | 1.1685 | 1.1465 |
| France | 5.0555 | 5.0975 |
| Germany | 1.5085 | 1.5230 |
| Italy | 1131.00 | 1140.70 |
| Japan | 127.23 | 128.90 |
| Mexico | 2912.20 | 2906.60 |
| Netherlands | 1.7008 | 1.7160 |
| South Korea | 705.57 | 704.58 |
| Switzerland | 1.2720 | 1.2805 |
| Taiwan | 26.80 | 26.79 |
| U.K.* | 1.9545 | 1.9720 |

*U.S. $ per U.K. pound

| MH TRADE-WEIGHTED DOLLAR (10/19/90) (Adjusted for Inflation) | Change Since Week Ago | Change Since 2/27/85 |
|---|---|---|
| | +1.4% | -1.8% |

ating from the East; if things go wrong, it could also significantly magnify them. The good news is that at California's periphery, near-boom conditions prevail in selected areas. These include the Seattle-Tacoma metroplex, which benefits from bustling port activity and a bulging backlog of commercial jet aircraft orders and the fast-growing Las Vegas area, which is luring some 4,000 new residents a month, and playing catch-up in providing all the newcomers with homes to live in, malls to shop at and roads to drive on.

The bad news is that the picture in California itself is less than rosy. As in New England, defense cutbacks and high-tech malaise have left their mark, muddying the jobs picture, and sending the state unemployment rate higher. Diminished affordability and tight environmental restrictions have put the brakes on a once-torrid residential property market, trimming housing starts by a third over the past year, and a glut of office space and "strip" shopping centers bodes ill for commercial construction. Unless checked, the softening of the California economy could set the stage for the bi-coastal recession of 1990, a 180-degree turn from the bi-coastal boom of five years ago. ■

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 10/17/90 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 242.417 | - 1.688 | +19.591 |
| Loans to Depository Inst. | .392 | - .017 | - .096 |
| Float | .596 | - .072 | - .302 |
| Total Reserve Bank Credit | 284.752 | - 1.742 | +23.604 |
| Treasury Deposits with Federal Reserve Banks | 5.505 | + 1.045 | - .649 |
| Currency in Circulation | 275.472 | + .866 | +25.663 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 237.628 | + .553 | + 4.138 |
| Member Bank Reserves: | **10/17/90** | | |
| Total Reserves Held | 60.386 | + 1.070 | + .482 |
| Excess (Deficiency) | .956 | - .202 | + .030 |
| Net Free Reserves | .568 | - .083 | + .276 |
| **Monetary Aggregates †** | | **‡ % Change Since 3 Months Ago*** | **Year Ago** |
| M1 (10/8/90) | 821.9 | + 5.9 | + 5.0 |
| M2 (10/8/90) | 3,325.5 | + 4.9 | + 4.8 |
| M3 (10/8/90) | 4,092.0 | + 3.2 | + 2.0 |
| Domestic Nonfinancial Debt (1st Q'90) | 9,987.4 | + 7.6 | + 8.1 |

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

## New York Money Market

| Offering Rates 10/19/90 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡ U.S. Treasury Bills | 7.26% | 7.19% | 7.07% |
| * Federal Agencies | 7.75 | 7.75 | 7.75 |
| * Municipal Notes–High Grade (34% Taxable Equivalent) | 9.09 | 8.94 | 8.71 |
| Negotiable Time CDs | | | |
| Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market–Prime | 8.15 | 8.15 | 8.15 |

‡ Finance Company Paper–Prime

| | |
|---|---|
| 5- 14 days | 7.90% |
| 15- 29 days | 7.95 |
| 30- 59 days | 7.93 |
| 60- 89 days | 7.90 |
| 90-179 days | 7.80 |
| 180-239 days | 7.60 |
| 240-270 days | 7.60 |

‡* Bankers' Acceptances

| | |
|---|---|
| Nov. | 8.03% |
| Dec. | 7.98 |
| Jan. | 7.99 |
| Feb. | 7.89 |
| Mar. | 7.84 |
| Apr. | 7.79 |

‡ Industrial Paper–Prime

| | |
|---|---|
| 30- 89 days | 7.98% |
| 90-120 days | 7.80 |

†Federal Funds Effective Rate 7.88%

‡ Discount basis. *Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 2nd Q'90 | $ 5,443 | $ 5,375 | $ 5,174 |
| Gross National Product (1982 Dollars)* | 2nd Q'90 | $ 4,155 | $ 4,151 | $ 4,112 |
| Percent Change, Annual Rate | 2nd Q'90 | 0.4 | 1.7 | 1.6 |
| Change in Consumer Prices* | Sep '90n | 9.6 % | 9.6% | 2.4% |
| Change in MH Cost of Living Index* | Sep '90n | 4.8 % | 4.8% | 6.0% |
| Change in Producer Prices* | Sep '90n | 19.2 % | 15.6% | 8.4% |
| Civilian Employment (Thousands of Persons) † | Sep '90 | 117,898 | 117,658 | 117,419 |
| Unemployment as % of Civilian Labor Force † | Sep '90 | 5.7% | 5.6% | 5.3% |
| Personal Income* | Aug '90 | $ 4,678 | $ 4,665 | $ 4,399 |
| Leading Indicators Composite Index (1967=100) † | Aug '90 | 144.2 | 146.0 | 144.8 |
| Industrial Production Index (1977=100) † | Sep '90n | 110.7 | 110.4r | 108.2 |
| Net Change in Consumer Installment Credit † | Aug '90n | $ 2.09 | $ 4.73r | $ 3.52 |
| U.S. Merchandise Trade Balance † | Aug '90n | - $ 9.34 | - $ 9.12r | - $ 10.33 |
| Plant and Equipment Expenditures* | 4th Q'90 | $ 538.6(a) | $ 532.5(a) | $ 519.6 |
| Private Housing Starts (Thousands of Units)* | Sep '90n | 1,135 | 1,142r | 1,263 |
| New Construction Expenditures* | Aug '90 | $ 442.5 | $ 442.4 | $ 433.9 |
| Total Business Inventories † | Aug '90n | $ 806.5 | $ 802.2r | $ 791.4r |
| Total Business Sales † | Aug '90n | $ 551.9 | $ 540.4r | $ 531.6r |

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

No matter what problems you encounter in business, chances are we've encountered them before, and can help.

Our experience helps us build relationships of trust with our customers, relationships where loyalty has a chance to take root and flourish. With loyalty established, understanding is more complete; decisions come more easily; useful new ideas occur more readily; turnaround time is shorter; growth is accelerated.

We build loyalty by working hard to learn your business and by becoming an integral part of your team. In particular you'll find your Account Officer's experience in analogous situations a big help in solving problems and formulating a successful growth strategy. Helping businesses grow has always been a traditional strength of ours, and will always be a major commitment.

We'd like to be your bank for the life of your business.℠

***The Business Banking Group***

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
**PAID**
Manufacturers
Hanover


004630000241 82 C 939 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN SRI
4520 EAST-WEST HWY
BETESDA, MD 20814

Financial Digest